

Message Text

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SUBJ: REDUCED ROLE FOR MINISTRY OF FINANCE AND OIL

SUMMARY: THERE ARE INDICATIONS THAT KUWAIT'S POWERFUL MINISTRY OF FINANCE AND OIL (MFO) MAY BE HEADING FOR A PERIOD OF RELATIVE DECLINE. ALREADY IN THE OIL SECTOR THE NEWLY ESTABLISHED KUWAIT OIL, GAS AND ENERGY COMPANY IS EXPECTED TO DILUTE THAT MINISTRY'S ROLE IN PETROLEUM AFFAIRS. WE UNDERSTAND A NEW INDEPENDENT INVESTMENT INSTITUTION ALSO MAY BE ESTABLISHED DURING THE COMING YEAR FURTHER REDUCING THE RELATIVE POWER POSITION OF MFO MINISTER ATEEQI VIS-A-VIS CROWN PRINCE/PRIME MINISTER JABER AL-AHMAD. END SUMMARY

1. ADDRESSEES MAY RECALL REPORTING FROM KUWAIT EARLIER THIS YEAR DESCRIBING THE STRUGGLE FOR POWER AMONG VARIOUS COMPETING GROUPS WITHIN THE GOK AND RULING FAMILY. A KEY ISSUE WAS THE FUTURE ROLE TO BE PLAYED BY MINISTER FINANCE AND OIL ATEEQI. A CLIMAX WAS REACHED LAST SPRING WHEN THOSE OPPOSING ATEEQI'S OIL NATIONALIZATION POLICIES IN THE NATIONAL ASSEMBLY FAILED TO OBTAIN SUFFICIENT VOTES TO BRING A NO-CONFIDENCE MOTION AGAINST HIM.

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2. DURING THE SUMMER, IN A DEVELOPMENT PROBABLY RELATED TO THE

POWER STRUGGLE EARLIER IN THE YEAR, THE GOK ANNOUNCED FORMATION OF THE NEW KUWAIT OIL, GAS AND ENERGY COMPANY (KOGEC) WHICH IS TO BE SONATRECH-LIKE UMBRELLA ORGANIZATION RESPONSIBLE FOR MARKETING OF GOK CRUDE AND SUPERVISING LOCAL PETROLEUM-RELATED INDUSTRIES INCLUDING GAS, REFINING, PETROCHEMICALS AND RELATED SHIPPING. KOGEC IS HEADED BY PROMINENT LOCAL BUSINESSMAN WHO ALSO A MEMBER OF KNPC BOARD. KOGEC BOARD INCLUDES VIRTUALLY ALL OF THE BRIGHT, YOUNGER KUWAITIS WHO HAVE COME TO HAVE EXPERIENCE IN PETROLEUM, INCLUDING SOME MFO OFFICIALS.

3. WE RECENTLY LEARNED THAT PRIME MINISTER JABER AL-AHMAD IS ALSO CONTEMPLATING ESTABLISHMENT OF A NEW INDEPENDENT INVESTMENT INSTITUTION WHICH WOULD TAKE OVER RESPONSIBILITIES OF THE MFO'S INVESTMENT DEPARTMENT. THE LATTER IS THE OFFICE MOST DIRECTLY CONCERNED WITH INVESTING AND RECYCLING KUWAIT'S TREMENDOUS OIL INCOME AND OTHER FINANCIAL ASSETS. THE PURPOSE OF THE NEW INSTITUTION WOULD BE: (A) TO IMPLEMENT GOK INVESTMENT POLICY IN A MORE BUSINESS-LIKE AND LESS BUREAUCRATIC MANNER; (B) TO AVOID CERTAIN INTERNAL GOK AUDIT PROCEDURES; AND (C) TO GIVE THE CROWN PRINCE/ PRIME MINISTER MORE DIRECT CONTROL OVER GOK INVESTMENT POLICIES AND PROGRAMS.

4. COMMENT: THE KOGEC IS STILL BEING ESTABLISHED AND THE NEW INVESTMENT INSTITUTION, IF IT DOES COME INTO BEING, IS AT LEAST A YEAR AWAY. NEVERTHELESS, GIVEN THE CURRENT CENTRAL POSITION OF THE MFO AND MINISTER ATEEQI IN KUWAITI OIL AND FINANCIAL AFFAIRS, WE THINK IT NOTEWORTHY ATEEQI AND HIS MINISTRY MAY POSSIBLY BE HEADING INTO A PERIOD OF RELATIVE DECLINE. IN ANY EVENT KOGEC IS LIKELY TO BECOME INCREASINGLY IMPORTANT IN OIL AFFAIRS, ESPECIALLY IF IT CAN PROVE ITSELF MORE EFFICIENT THAN THE MFO. IF THE INVESTMENT POLICY-MAKING AND IMPLEMENTING ROLE IS ALSO SHORN FROM THE MINISTRY, ITS RELATIVE POWER WILL BE REDUCED EVEN MORE.

5. THERE IS A CLEAR TREND WITHIN THE GOK TO ESTABLISH INDEPENDENT BOARDS OR COMPANIES TO HANDLE IMPORTANT OR POLITICALLY SENSITIVE TASKS. KOGEC IS ONE EXAMPLE AND THE NEW NATIONAL HOUSING BOARD IS ANOTHER. THESE NEW ORGANS PROBABLY WILL TEND TO BY-PASS
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TRADITIONAL MINISTRIES AND TO OPERATE RELATIVELY INDEPENDENTLY, REPORTING DIRECTLY TO THE PRIME MINISTER OR THE THE COUNCIL OF MINISTERS, WHICH JABER AL-AHMAD HEADS.

6. CURRENT DEVELOPMENTS BEAR WATCHING FOR FURTHER EVIDENCE THAT THE PRIME MINISTER'S ALREADY POWERFUL POSITION IS TO BE ENHANCED EVEN MORE AND AT THE SAME TIME ATEEQI'S INFLUENCE REDUCED. THE LATTER IS STRONGLY SUPPORTED BY THE PRESENT AMIR

AND CAN BE EXPECTED TO CONTINUE TO REPRESENT KUWAIT IN INTERNATIONAL PETROLEUM MATTERS. HOWEVER, HIS CONTROL OVER DOMESTIC PETROLEUM AFFAIRS AND INFLUENCE ON FUTURE KUWAITI INVESTMENT POLICY COULD BE SUBJECT TO EROSION. THIS TREND WOULD BE ACCELERATED IF, AS SOME OBSERVERS PREDICT, THE MINISTRY OF FINANCE AND OIL IS SPLIT INTO TWO NEW MINISTRIES FOLLOWING PARLIAMENTARY ELECTIONS EARLY IN 1975.
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